MULTIMEDIA UNIVERSITY

STUDENT ID NO

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FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BSM3614 – STRATEGY

(All Sections/Groups)

11 MARCH 2020
9:00AM – 12:00PM
(3 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **EIGHT (8) pages** (exclusive of cover page) only.
2. **Answer ALL questions.** All questions carry equal marks and the distribution of the marks for each question is given.
3. Please provide **all your answers** in the Answer Booklet provided.

INSTRUCTIONS: ANSWER ALL FIVE (5) QUESTIONS.

QUESTION 1 (20 MARKS)

Read the following article[1][2] and answer the question at the end of the article.

Hermes is a 175-year-old company and is the world's second most valuable luxury brand. Hermes seems to transcend the luxury brand category all together, becoming a kind of experiential currency. The Hermes brand embodies craftsmanship, precision and timelessness ... capturing the past, imagining the future, and punctuating the present.

"*We don't have a policy of image, we have a policy of product.*" – former Hermes CEO Jean-Louis Dumas. At the core of any enduring brand is a product, service, or person backed by a promise. The leading principal at Hermes today remains a fierce commitment to the quality and refinement of each of its products. Rejecting mass production, assembly lines, and mechanisation, Hermes claims that one artisan fabricates each item. This tradition is its lifeline, having started with its founder Thierry Hermes who started handcrafting horse harnesses for caliches and carriages in 1837.

The ability to innovate, adapt, and integrate while staying true to the core promise is key to building an enduring brand. Hermes has always remained relevant while being committed to the tradition of "*making things the way the grandfathers of our grandfathers did.*" Forty-two years after Thierry Hermes began the harness business for carriages, the business expanded to include saddles as the demand for well-crafted equestrian accoutrements grew.

When asked about the secret of the Hermes' success, CEO and U.S. President Robert Chavez said, "*We are consistent. We don't do drastic styles or make sudden changes. There are no markdowns. These are lasting effects.*" While companies and products evolve, a commitment to the brand promise needs to remain constant.

A few key decisions have helped protect the Hermes brand's promise, including remaining one of the oldest primarily family-owned businesses in France (a certain percentage is publicly traded on the French Stock Exchange) and not licensing the brand. Additionally, the original Hermes logo, palette, and fonts remain unchanged–the classic Duc Carriage with Horse logo, and the "*Hermes orange*" packaging are iconic.

Experiential currency is the value produced when a brand establishes an experience as a medium of exchange. It's not formulaic, but rather exists dynamically between the customer, the product, and the experience the union provides. Experiential currency increases every time the brand promise is actualised. And, the value of those meaningful and consistent moments keeps people coming back.

For better or worse, brands are no longer peripheral to our grasp of the world; they are central to it. They are not merely labels but instruments through which we constitute, navigate, and articulate our worlds. The brands we chose to identify with characterise

[1] Sourced from: https://www.forbes.com/sites/margaretperlis/2012/10/11/4-steps-to-building-an-enduring-brand-lessons-from-hermes/#dcb2ef23ad6b
[2] Sourced from: https://skift.com/2018/09/28/why-hermes-makes-it-tough-to-find-its-products/

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who we are, who we think we are, or who we dream of becoming. As brands proliferate at breakneck speed, those that endure are those that treasure as well as capitalise on the powerful role they play in peoples' lives. Hermes is such an example and remains a brand of enduring excellence.

With only about 300 stores, including a website — the only official place online to shop for its products — Hermès relies on a "*very limited distribution strategy*" to keep its products hot, the company's president and CEO for the Americas said Friday at the Skift Global Forum in New York City.

"*People want things that not a lot of people can get,*" Hermès' Robert Chavez told Skift President Carolyn Kremins. "That's what it is like in the luxury world. *Once something becomes very saturated, that luxury customer doesn't want it anymore.*"

At its core, Hermès is still mostly an old-style retail operation that focuses on the human element. It still does much of its business in-person and each store has a slightly different inventory, chosen by the store's director, who flies to Paris a couple of times per year to choose it. Face-to-face communication with customers is so important Hermes won't hire an applicant who doesn't smile through the interview process, Chavez said.

Still, the online business is improving fast, he said. Last year, the company redesigned its digital experience to focus on mobile, and after that "*business just skyrocketed,*" he said. Internet sales are Hermes' fastest growing business segment, he said. Hermes sells everything online customers can find in stores — with one exception. The nearly impossible-to-get Birkin bag is only sold in stores. "*You have to give people reason to keep coming into the store,*" Chavez said.

(a) Analyse the case and explain how Hermes maintains the sustainability of its business in a competitive environment. (12 marks)

(b) Explain how Economic and Sociocultural factors are critical in creating opportunities for Hermes. (8 marks)

QUESTION 2 (20 MARKS)

(a) Innovation is a key outcome firms seek through entrepreneurship and is often the source of competitive success, especially in turbulent, highly competitive environments.

Justify the above statement. (10 marks)

(b) Strategy evaluation is critically important today because internal and external factors often change quickly and dramatically. Key factors need to be monitored during strategy-evaluation activities. Corrective actions to re-steer a strategy must be made in a timely manner, before it is too late for the firm to recover.

Discuss Rumelt's criteria to evaluate an organisation's strategy.

(10 marks)

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QUESTION 3 (20 MARKS)

Provided are hypothetical internal and external analyses for a Strategic Position and Action Evaluation (SPACE) Matrix of a hardware/software conglomerate.

Internal Analysis		External Analysis	
Financial Position (FP)		Stability Position (SP)	
Brand value: It has a brand value of US$118 billion with a market capitalisation of US$700 billion.	6	Environmental impact: It takes 539 lbs of fossil fuel, 48 lbs of chemicals, and 1.5 tons of water to manufacture one computer and monitor.	-5
Focus of expenditures: It designs and develops, with consumers and the quality of their experience in mind, products i.e. hardware, operating system, software applications and related services, to form a multimedia digital lifestyle; its total R&D expense (in billions): $3.4 (2018), $4.5 (2017) and $6.0 (2016); its advertising costs (in billions): US$1.0 (2018), US$1.1 (2017) and US$1.2 (2016).	5	Corruption index: Transparency International's 2018 Corruption Perceptions Index indicate more than half of Asia Pacific countries a score of less than 40 on its scale from 0 (highly corrupt) to 100 (very clean).	-4
Outsourcing dependency: 97% of its procurement expenditures for materials, manufacturing, and assembly of products worldwide comes, in whole or in part, from outsourcing partners primarily in Asia (it has 600 suppliers in Asia out of its 748 listed suppliers).	2	Household income: Across the rapid-growth markets (RGMs), there will be nearly 200 million households with incomes in excess of US$35,000 by 2022, with spending on services such as communications, culture and recreation.	-2
Debt position: Its long-term debt increased from US$10 billion (2016) to US$28.9 billion (2018), with US$5 billion due in 1-3 years, as of September 2018.	2	Collateral risk: Kaspersky Lab 2018 statistics indicate that the number of cyber-attacks involving financial malware increased to 28.4 million – 27.6% more than 2016, where the proportion of financial cybercrime was greatest in Afghanistan, Bolivia, Cameroon, Mongolia, Myanmar, Peru, Turkey and Ethiopia, accounting for more than 12% of all malware incidents, the vast majority of attacks targeting Android smartphone owners..	-4
Compound sales effect: Each new product launch risks rendering previous devices obsolete i.e. xPhone unit sales (in billions): 125.0 (2016), 150.2 (2017), 169.2 (2018) influencing the drop in xPod unit sales (in billions): 35.1 (2016), 26.3 (2017), 14.3 (2018) and xPad unit sales (in billions): 58.3 (2016), 71.0 (2017), 67.9 (2018)	2	Factor of inflation: In the International Labour Organisation's (ILO) annual "Global Employment Trends" report, an estimated 201.8 million people were jobless in 2018, up by nearly 5 million in one year, a new high, exceeding 2016's record of 198 million; additionally, in 2018, an estimated 375 million workers - 11.9 percent of the world's workforce - lived on less than $US1.25 a day, while 839 million - 26.7 percent - received $2 a day or less.	-3
Competitive Position (CP)		Industry Position (IP)	
Product offerings: Its ecosystem of products and services are xPhone®, xPad®, Max®, xPod®, Box TV®, consumer and professional software	-1	Big data: Globally, only 34 countries have high-quality, easily accessible data.	4

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applications, the xOS and xOS 1® operating systems, xCloud®, accessory and service and support offerings, Box Watch™ and Box Pay™, digital content and applications through the xApp Store.			
EHS practices: It launched the Box Supplier EHS Academy – an 18-month programme that offers 25 courses for environment, health, and safety, and it includes general and customised classes in subjects such as hazards risk identification and assessment, fire safety, hazardous chemical management, industrial hygiene, ergonomics, personal protection equipment, and lockout tagout (LOTO).	-2	Manufacturing concerns: Worldwide semiconductor revenue is likely to reach $338 billion in 2018, a 7.2% increase from 2017, and up from the previous quarter's forecast of 6.7% growth, according to Gartner, Inc.	4
Workforce policy: Its benefits include money towards college tuitions, gym memberships, a 401k plan, health care, 25% product discounts, and opportunities to buy stock at lower prices; most recently, it offers egg-freezing coverage up to $20,000 under its fertility benefit	-3	Investment trends: The U.S., China, Japan and Europe account for about 78% of 2018's $1.6 trillion invested on R&D around the world in areas of robotics, high performance computing, social media, software, cost effective energy sources and nanobiotechnology; in addition, China has fixed a macroeconomic goal of spending 2.2% of GDP on research by 2015, toward becoming an innovation-based economy by 2020.	5
Strategic locations: It has 437 retail stores located at high-traffic urban and quality locations over 15 countries, ensures experienced and knowledgeable personnel who provide product advice, service and training (approximately 46,200 of the 97,000 total full-time equivalent employees work in its retail segment) and offers third-party hardware, software and other accessories that complement its products.	-2	Industry growth: Cisco's Internet Business Solutions Group (IBSG) predicts some 25 billion devices will be connected by 2018, and 50 billion by 2023.	6
Legal malpractices: It is a target for lawsuits: 4th most frequent target for patent suits - after AT&T, Google and Verizon, the use of sweatshop labour, environmental destruction, unethical business practices, China warranty policy, its offshore tax practices in Ireland, its music DRM (digital rights management) practices, over the violation of the California labour code by not offering employees "timely meal breaks, timely rest breaks, and timely final paychecks", and "unpaid time spent standing in line for security checks after clocking out", as well as over its anti-poaching agreements with other technology companies i.e. deals made with competitors to prevent engineers at one company from taking a more lucrative job at another, etc.	-5	Competitive rivalry: 50 of the top global ICT companies have posted US$2.22 trillion in revenue for 2018, with the top 5 i.e. IBM, Microsoft, SAP, Oracle and Cisco Systems.	4

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(a) Explain the Strategic Position and Action Evaluation (SPACE) Matrix. (5 marks)

(b) Based on the above table, provide the necessary calculations and plot the SPACE graph. (*Marks will be allocated for workings.*) (10 marks)

(c) Based on your findings in (b), provide recommendations for the organisation to plan for its future growth. (5 marks)

QUESTION 4 (20 MARKS)

(a) Read the following article and answer the question at the end of the article.

Alibaba buys Chinese e-commerce business Kaola for $2 billion[3]
by Saheli Roy Choudhury, CNBC Tech, **THU, SEP 5 2019 10:17 PM EDT**

Alibaba said Friday it will acquire a cross-border e-commerce business unit, Kaola, from the Nasdaq-listed Chinese internet company NetEase for about $2 billion. Kaola sells imported products in China that include clothes, consumer electronics, and sports accessories. It is one of the biggest Chinese e-commerce sites focused on selling imported goods in the country, alongside Alibaba's Tmall Global and JD.com's JD Worldwide.

Alibaba said it plans for Kaola to continue operating independently under its current brand, but it will have a new leader at the helm. Tmall Import and Export General Manager, Alvin Liu, will take over as CEO. With Tmall Global and Kaola, Alibaba will have a massive market presence in the cross-border e-commerce sector.

With Alibaba's acquisition of Kaola and its investment into NetEase Cloud Music, NetEase can "further optimize its costs while Alibaba strengthens its leadership in cross border ecommerce," Jefferies analysts wrote in a note on Friday. China is one of the largest e-commerce markets in the world, with research firm eMarketer predicting in a June report that in 2019 the country will have $1.935 trillion in e-commerce sales, about three times more than the United States. Daniel Zhang, chief executive officer of Alibaba Group, said in a statement that the company is confident about the future of China's import e-commerce market which he said, "remains in its infancy with great growth potential." "With Kaola, we will further elevate import service and experience for Chinese consumers," he added in a statement.

Last month, Alibaba reported better-than-expected revenue and earnings for its June quarter but sales growth had slowed. The company's core commerce business, which includes its Tmall and Taobao shopping platforms, and its booming cloud division contributed to growth. Annual active consumers on Alibaba's China retail marketplaces reached 674 million, a jump of 20 million and most of those new consumers were said to be from less-developed cities. Alibaba, together with Yunfeng, will also invest about $700 million in NetEase's music streaming service, NetEase Cloud Music, the companies said.

[3] Sourced from: https://www.cnbc.com/2019/09/06/alibaba-baba-to-buy-e-commerce-unit-kaola-from-netease-for-2-billion.html

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Is the acquisition of Kaola by Alibaba suitable in the current environment? Provide reasons for your answer. (10 marks)

(b) Read the following article and answer the question at the end of the article.

Lazada shows off marketing prowess, adds branding capabilities for merchants[4]
21/03/2019 Thu 12:38 in Indonesia by Farzanah Farveen

In line with its seventh anniversary, Lazada is firing up its marketing prowess with the push of LazMalls and "Super eBusinesses" across Southeast Asia. The offerings, dubbed super-solutions, are aimed at resolving three pain points that brands and sellers face – branding, marketing and sales. These features, which have been rolled out in conjunction with Lazada's seventh birthday celebrations, are aimed at brands and sellers, of all sizes, to ensure they are well-positioned to ride the eCommerce boom in Southeast Asia.

The super solutions unveiled include the following. A series of 'Super' campaigns in which LazMall brands and sellers can choose to take part to boost their brand image and better engage with customers. A new marketing solutions package and business advisor dashboard that can deliver more traffic to their storefronts, and arm brands and sellers with near real-time information to help them make faster and better decisions to sell more effectively and efficiently. New tech tools such as store builder for brands and sellers to customise their storefronts to differentiate themselves on Lazada, while in-app live streaming, news feed and in-app consumer games can help with higher consumer engagement.

"No seller is too small to aspire, and no brand is too big to be a Super eBusiness. That is why we are thrilled to roll out super-solutions to help our brands and sellers become more nimble in digitising their businesses and better reach customers," Pierre Poignant, Lazada Group chief executive officer said.

Speaking at the launch event, Poignant said backed by Alibaba's technology and logistics infrastructure, Lazada has been able to launch several tech innovations over the years such as search-image function, consumer engagement games and in-app live streaming to become a "shoppertainment" platform on which people can watch, shop and play. Poignant added that as the eCommerce company inches its seventh anniversary it has now relooked at its mission and vision; and is now aiming to "accelerate progress in Southeast Asia through commerce and technology". "Southeast Asia is a fantastic region of the world which is developing at a very high speed. In Southeast Asia developments such as mobile, e-commerce, travel, ride-hailing industries are all booming at once accelerating growth and digital world of Southeast Asia," he said. "We are a SEA company and love the region and diversity which also brings a lot of complexity. We want to transform retail, both online and offline. And in the next few years, you will see more initiatives as we integrate with the offline world," he said.

[4] Sourced from: https://www.marketing-interactive.com/lazada-shows-off-marketing-prowess-adding-branding-capabilities-for-merchants/

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Poignant added that the next wave of change will come from small medium company and Lazada aims to drive this. "We need to create long term value and efficiency through technology, logistics and payment. We also don't want to be just a platform for simple buying," he said. He added the "shoppertainment" agenda was created given Millennials have a different way of buying and what entertainment and consumption means to them is evolving. He added that Millennials spend more than three hours on smartphone and do everything on the platform. As such, keeping "shoppertainment" in mind, merchants and brands can engage with consumers through live streaming, conversation and games.

The super-solutions also allow brands and sellers to open up storefront functions on LazMall easily, as qualified merchants can take advantage of the new self sign-up feature. This comes in line with Lazada's goal of enabling SMEs to become globally competitive. In a statement, Lazada said that across the region, 60% of SMEs are keen to invest in technologies to achieve sustainable growth in today's digital economy. Business-oriented tools including online commerce solutions, customer relationship management (CRM) and business intelligence, were identified as the top investment priorities.

In a bid to boost collaboration and strengthen its online retail presence, Lazada has also formalised cooperation partnerships with 12 global lifestyle, technology and fashion companies. Called joint business partnerships, these collaborations look to enable brands to tap on Lazada's technology and logistics infrastructure, innovation and eCommerce expertise. The eCommerce platform inked a deal with electronics manufacturers, Realme and Coocaa, while the one with Huawei was signed earlier this month. Other brands that are set to join will include several global FMCG companies.

Analyse the case and discuss the core strategy that is used by Lazada and the means used to achieve that strategy. (10 marks)

QUESTION 5 (20 MARKS)

(a) There are TWO (2) theories of competitive advantage. Explain ANY ONE (1) of these theories. (7 marks)

(b) Amazon[5] [works] with the U.S. Postal Service to transport insulated tote bags of perishable goods to customers San Francisco, as part of the e-commerce website's growing same-day grocery-delivery service called AmazonFresh. It has access to USPS delivery trucks between 3 a.m. and 7 a.m. local time, when few of the trucks would otherwise be in use, according to the Wall Street Journal. The insulated packaging bypasses the need for refrigerated trucks to make these deliveries. Amazon has also established Prime Pantry as a national subscription programme for dry goods and expanded AmazonFresh from Seattle to Los Angeles and San Francisco; expansions to Washington, DC/Baltimore and New York/New Jersey are rumoured to be in the works[6]. CEO Jeff Bezos declared his

[5] http://www.fastcompany.com/3035352/most-innovative-companies/amazonfresh-taps-usps-to-deliver-groceries-in-san-francisco
[6] http://www.strategy-business.com/article/00286?pg=all

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intentions to deliver packages via drone in a 60 Minutes interview last December. Earlier this year, Amazon disclosed it was designing its seventh-generation prototype delivery drone, but the idea won't take off until the Federal Aviation Administration issues guidelines for commercial operators.

[It is also] launching[7] a line of diapers and baby wipes that are available exclusively to Prime subscribers. The new offering — completely separate from the Amazon-owned Diapers.com — is branded Amazon Elements, and eventually it'll expand to include other "*premium, everyday essentials with transparent origins*". And Amazon's making a big deal about being transparent with its latest initiative. For every Amazon Elements item, you'll be able to see "*when and where items were made, why each ingredient was included, where the ingredients were sourced*" and other details. Researching an item is pretty simple and fast; you just scan a code on its box with Amazon's mobile app for Android, iOS, or Fire OS. If you're wondering why all that info is necessary, Amazon says it wants to meet the "*high standards*" of its loyal Prime subscribers and the company feels it can help those customers make informed decision by offering background on how each product is made. It lets parents feel good about their buying decisions, and also adds yet another perk that could hook consumers on Amazon's $99-per-year Prime service.

Justify Amazon's strategies. (13 marks)

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[7] http://www.theverge.com/2014/12/4/7337047/amazon-launches-elements-baby-items-everyday-essentials